Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	
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COMMENTS OF VERIZON

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Introduction and Summary

The rural high-cost program is by far the most expensive component of a rapidly increasing universal service fund. This proceeding offers a clear opportunity to address the asymmetrical high-cost funding of larger rural and non-rural carriers in a manner that will protect against unwarranted fund growth, while ensuring continued affordable local service to all rural communities. The Commission should do so by limiting the size of carriers that qualify for rural support, with larger carriers receiving support on a similar basis as non-rural carriers, by freezing the amount of per-line support, and by limiting the number of eligible telecommunications carriers ("ETCs") eligible to serve rural areas.

The facts demonstrate that regional and national mid-sized carriers that currently are classified as "rural" and serve more than 100,000 lines in a state, have grown significantly since the 1996 Act through the rapid consolidation of rural exchanges, and share many of the same characteristics of non-rural carriers. When the Commission initially established high-cost funding for these larger carriers, it grouped them in the same funding mechanism that is used by

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1 The Verizon telephone companies ("Verizon") are the local exchange carriers affiliated with Verizon Communications Inc., and are listed in Attachment A.

smaller rural carriers. However, as the Commission itself has recognized, "some rural companies may be more similar to non-rural companies than to smaller rural companies." *Rural Task Force Order*, ¶ 172. In referring this matter to the Joint Board, it directed the Joint Board to consider the fact that there is "great diversity" among the carriers currently receiving high-cost support under the rural fund, and that the differences between the carriers may suggest that not all carriers currently classified as rural "have similar [universal service] support requirements."[2]

In most respects, mid-sized carriers that operate in multiple study areas within a state exhibit more in common with their non-rural carrier counterparts than they do with the smaller rural companies the rural high-cost mechanism was designed to address. *See* Section I, *infra*. Indeed, it is a misnomer to label many of these carriers as "rural" telephone companies; a more accurate label would be larger and mid-size companies that serve rural customers.[3] In addition, as the Commission noted, many carriers currently qualifying for "rural" high-cost support are subsidiaries of larger companies, "which may provide them economies of scale" not available to smaller rural carriers. *Referral Order*, ¶ 11.

Thus, all carriers with more than 100,000 lines in a state should be transitioned to the same basis of high-cost support as the non-rural carriers. For purposes of determining the amount of lines served (and thus the amount of high-cost support received), carriers should be

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2 *Federal-State Joint Board on Universal Service*, Order, FCC 04-125, ¶ 11 (rel. June 28, 2004) ("*Referral Order*").

3 Joint Board Member and Montana Commissioner Bob Rowe correctly notes that some non-rural carriers "are simply large companies (not necessarily "non-rural") which in some cases serve very large numbers of rural customers." Statement of Chairman Bob Rowe, Public Notice, *Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support*, FCC 04J-2 (rel. Aug. 16, 2004); *see also* Petition for Reconsideration of SureWest Communications, CC Docket No. 96-45, at 15 (Jan. 15, 2004) ("In hindsight, the use of the terms 'rural' and 'non-rural' in the context of universal service reform, is unfortunate.").

directed to report all lines in the state that are under common ownership as part of one study area. Otherwise, as the Commission recognized, "[b]y operating in multiple study areas in a given state, certain carriers may receive more high-cost universal service support than they would if their study areas within the state were combined." *Referral Order*, ¶ 12.

Smaller rural carriers that serve very few wire centers should remain under the current rural high-cost mechanism. However, in order to check against unwarranted growth and inadequacies under the current methodology, the Commission does need to reform the system of high-cost support for those carriers by freezing per-line support, and by limiting the number of ETCs eligible to serve rural areas. *See* Comments of Verizon, CC Docket 96-45, (filed Aug. 6, 2004) ("*Verizon Portability Comments*"). These reforms provide the Commission with the most effective means to properly target support "to rural telephone companies serving the highest cost areas, while protecting against excessive fund growth."[4]

I. All Larger Carriers Currently Eligible for High-Cost Support Under the Rural Fund Should be Transitioned to the Same Basis of High-Cost Support as Non-Rural Carriers

In both the *First Report and Order* and the *Rural Task Force Order*, the Commission acted with caution in determining that smaller rural carriers should not be transitioned to the same basis of support as non-rural carriers.[5] The Commission found that, "compared to the large non-rural carriers, rural carriers generally serve fewer subscribers, serve more sparsely populated areas, and generally do not benefit as much from economies of scale and scope." *Referral*

[4] *Referral Order*, ¶ 1.

[5] *See generally Federal-State Joint Board on Universal Service*, Fourteenth Report and Order and Twenty-Second Order on Reconsideration, *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Report and Order, 16 FCC Rcd 11244 (2001) ("*Rural Task Force Order*").

Order, ¶ 3 (citing *Federal-State Joint Board on Universal Service,* Report and Order, 12 FCC Rcd 8776, ¶ 294 ("*First Report and Order*")). It also reasoned that, "for many rural carriers, universal service support provides a large share of the carriers' revenues" and thus any dramatic change in the support mechanisms "may disproportionately affect rural carriers' operations." *Referral Order*, ¶ 3. Thus, it established a separate mechanism for high-cost support for rural carriers that was not made available to their non-rural counterparts. *Id.; First Report and Order*, ¶¶ 300-02.

In doing so, however, the Commission expressly acknowledged, "the significant differences *among* rural carriers, and between rural and non-rural carriers." *Rural Task Force Order*, ¶ 8 (emphasis added). This first conclusion has been largely overlooked, even though the Commission also "observe[d] that some of the data seem to show that some rural companies may be more similar to non-rural companies than to smaller rural companies." *Id.*, ¶ 172. The Commission echoed this same observation in its *Referral Order*, directing the Joint Board to "take into account the significant distinctions among rural carriers" when recommending the appropriate level of high-cost support. *Referral Order*, ¶ 1.

Although the Commission long ago recognized the significant differences "*among*" carriers serving rural areas, regulatory action to address this finding is overdue. In order to reflect the fact that larger rural carriers have more in common with non-rural carriers than with smaller rural carriers, mid-sized rural carriers with more than 100,000 lines in a state should be transitioned to the same basis of support as non-rural carriers. Because eligibility for high-cost support is determined at the study area level, for purposes of determining the appropriate level of high-cost support, any carrier operating in multiple study areas within a single state should receive support based upon its statewide operations, not on an individual study area basis. *See Referral Order*, ¶ 12.

A. The Joint Board Should Recommend That the Commission Require Consolidation of all Study Areas within the State for Purposes of Determining Whether A Carrier Is Eligible to Receive Rural High-Cost Support

As the Commission recognized, due to the way that high-cost support is calculated, some carriers receive more high-cost support than others based simply on the way their study areas are defined. In other words, "[b]y operating in multiple study areas in a given state, certain carriers may receive more high-cost universal service support than they would if their study areas within the state were combined."[6] Although the Commission froze rural study areas decades ago in order to avoid unwarranted increases in the fund size, to address the disparity in current funding levels among similarly situated carriers, and more effectively target rural high-cost support, multiple study areas in a state under common ownership should be consolidated for universal service support calculation purposes.[7] In addition, as explained below, study area consolidation would provide additional incentives for more rational rural investment.

Twenty years ago, the Commission froze study area boundaries so that each carrier's service area within a state would be a single study area. It explained that the freeze was

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6 *Referral Order*, ¶ 12. This is because one of the definitions of "rural telephone company" is a carrier that provides local exchange service to less than 100,000 access lines *in a study area*. 47 U.S.C. §153(37)(C). Thus, if one carrier has 99,000 access lines in one study area, and 99,000 access lines in adjacent study area in the same state, it can be classified as a rural telephone company, but it would not be if both study areas were combined for a total of 198,000 access lines. Absent fitting into another category of rural telephone company, this carrier would no longer be classified as rural if its study areas were consolidated.

7 "Common ownership" should be defined as either multiple study areas served by the same carrier or by operating subsidiaries that are commonly owned at the holding company level.

established "primarily to ensure that ILECs do not place high-cost exchanges within their existing service territories in separate study areas to maximize payments from the Universal Service Fund support program."[8] In general, most carriers had a single study area in a state. Single study areas have ensured that separate cost accounting in a state is maintained to simplify state and federal ratemaking.[9]

The creation of mid-sized and regional ILECs serving rural communities and the corresponding significant growth and expansion of rural ILECs have resulted in significant consolidation of rural properties. These consolidated rural carriers often serve several study areas within a single state as a result of the acquisition of multiple carriers' study areas. By way of example, CenturyTel currently serves 16 study areas in Wisconsin alone.[10] Because the level of high-cost loop support is based on each study area, this system artificially decreases carriers'

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[8] *Request for Clarification Filed by the NECA, Inc. and Petition for Waiver Filed by Alaska Telephone Company, Ducor Telephone Company, and Kingsgate Telephone, Inc.*, Memorandum Opinion and Order, 11 FCC Rcd 8156, ¶ 2 (1996) ("*NECA Study Area Order*"); *see also ALLTEL Service Corporation, on behalf of ALLTEL Arkansas, Inc., and Perco Telephone Company Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Subpart H, Appendix-Glossary, of the Commission's Rules,* Memorandum Opinion and Order, 10 FCC Rcd 4418 (1995).

[9] *Petitions for Waiver and Reconsideration Concerning Sections 36.611, 36.612, 61.41(c)(2), 69.605(c), 69.3(e)(11) and the Definition of "Study Area" Contained in Part 36 Appendix-Glossary of the Commission's Rules Filed by Copper Valley Telephone, Inc.*, Memorandum Opinion and Order on Reconsideration, 1999 FCC Lexis 4381, ¶ 3 (Sept. 9, 1999) (finding that "incumbent LECs operating in more than one state typically have one study area for each state, and incumbent LECs operating in a single state typically have a single study area. Study area boundaries are important because incumbent LECs perform jurisdictional separations, determine high cost loop support amounts, and generally tariff their rates at the study area.").

[10] *See* Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, Federal-State Joint Board October 2004 Monitoring Report, Table 3.22 (rel. Oct. 12, 2004) ("*Monitoring Report*").

relevant service areas, and may overcompensate carriers because it fails to capture the true economies of scale and scope available to a carrier that is operating on a statewide basis.[11]

Generally, the Commission has strict rules governing any modifications to study area boundaries. Tellingly, however, a waiver is not "required when a holding company is consolidating existing study areas in the same state." *NECA Study Area Order,* ¶ 6. The Commission explained that "the consolidation of study areas located within the same state tends to reduce [universal service fund] draws and is the type of study area reconfiguration that the Commission encourages as serving the public interest." *Id.* This distinction reflects the policy decision that it is beneficial and serves regulatory policy to consolidate study areas, but not split a single state into multiple study areas. The Commission should expand upon this prior decision and require consolidation of commonly owned study areas for universal service purposes, returning to the basic principles underlying the initial study area freeze.[12]

Requiring universal service support to be computed on a statewide basis also encourages efficient rural investment. Many rural providers have begun the process of rationalizing service to rural America, by seeking to consolidate far-flung operations into service "clusters" that allow them to take advantage of economies of scale while still focusing on the needs of their smaller

[11] *Referral Order,* ¶ 12.

[12] Recognition of the need to correct this irregularity and consolidate study areas for universal service purposes has been raised on numerous occasions. The Missouri Public Service Commission, as well as other state commissions, highlighted the need to do so in their comments to the Joint Board in 1996 because it would "best reflect the overall circumstances of each LEC." Comments of the Missouri Public Service Commission, CC Docket No. 96-45, at 8 (Apr. 10, 1996); *see also Recommended Decision of the Federal-State Joint Board on Universal Service,* 12 FCC Rcd 87, ¶ 221 (Nov. 8, 1996).

markets.[13] By more directly linking universal service support to statewide operations, the Joint Board would further encourage the efficient "clustering" of rural operations, fostering additional rural investment and rational acquisitions, and limiting high-cost loop support to those areas where it is not necessary.

B. Mid-Sized Carriers with More Than 100,000 Lines in a State Should be Transitioned to the Same Basis of Universal Service Support As Non-Rural Carriers

As set forth in more detail below, carriers with more than 100,000 lines in a state are more like non-rural carriers than smaller rural carriers, and can operate effectively under the same system of universal service support as non-rural carriers. As the Commission recognized, "many rural telephone companies are, in fact, the operating subsidiaries of larger holding companies, which may provide them economies of scale that are not realized by other non-affiliated rural telephone companies." *Referral Order*, ¶ 11. The Rural Task Force addressed the need for "[a]n understanding of differences *between* Rural Carriers and non-Rural Carriers, and diversity *among* Rural Carriers." *The Rural Difference*, Rural Task Force, White Paper 2, at 7 (Jan. 2000) ("*Rural Difference White Paper*"). An appreciation for both distinctions is the "key to designing appropriate mechanisms and policies necessary to achieve the universal service principles required by the 1996 Act." *Id.* The Commission's current rules, however, only account for operational differences between non-rural and rural telephone companies as defined

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[13] For example, Citizens' acquisition of Frontier was precipitated, in part, by the fact that "Approximately 85 percent of Frontier's lines add additional mass to our operating clusters in New York state and the Midwest and provide us with the economies of scale for continuing EBITDA margin improvement." *New York Public Service Commission Approves Citizens Communications' Purchase,* Business Wire, 12:01:00 (Apr. 26, 2001). Similarly, CenturyTel's stated acquisition strategy is to "cluster our markets geographically to achieve operational and network efficiencies." *CenturyTel completes Purchase of Verizon's Alabama Local Exchange Telephone Business*, Cambridge Telecom Report, 2002 WL 9539229 (July 8, 2002).

in Section 153(37) of the Act; even though mid-sized carriers currently classified as rural exhibit characteristics that more closely resemble large non-rural companies than small rural ones. Many non-rural carriers serve extensive rural communities. In turn, carriers currently classified as rural – particularly those with large national footprints – often serve large suburban, and even urban, areas.

As a threshold matter, the law does not require the dividing line the Commission chose between rural and non-rural carriers, and arguably requires a different dividing line altogether. Section 254 of the Act sets out as one of the "principles" to guide the Commission's policies that *consumers* in "rural, insular, and high-cost areas" should have access to services that are reasonably comparable to other areas, and says nothing about particular carriers.[14] Indeed, the Act supports a conclusion that policies should be tailored to promote reasonably comparable service for "*consumers*" in "rural *areas*," not for "rural telephone *companies*" as defined in the Act. Therefore, the Joint Board correctly concluded that there is "no statutory requirement that the Commission use the Act's definition of rural telephone company for high-cost universal service purposes."[15] Indeed, while Congress singled out special protections for "rural telephone companies" vis-à-vis competitive entry in Section 214 and interconnection in Section 251, it made no such reference to rural telephone companies in the universal service definitions set forth in Section 254.

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[14] 47 U.S.C. § 254(b)(3); *Referral Order*, ¶ 9.

[15] Public Notice, *Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support*, FCC 04J-2, ¶ 9 (rel. Aug. 16, 2004) ("*Joint Board Notice*").

Accordingly, the Commission should ensure that the larger and mid-sized carriers receive the same levels of universal service support as non-rural carriers. In fact, the decision to create separate high-cost support mechanisms for rural and non-rural telephone companies was premised on the Joint Board's initial conclusion that the models used to calculate high-cost support for non-rural carriers "as proposed could not precisely calculate *small*, rural carriers' costs." *First Report and Order,* ¶ 216 (emphasis added). As a result, the Commission delayed the transition of *all* telephone companies classified as rural to the model-based support mechanism used for non-rural carriers, based on the finding that rural carriers "serve fewer subscribers, serve more sparsely populated areas, and do not generally benefit as much from economies of scale and scope" as large non-rural carriers. *Id.,* ¶ 294. Upon more careful review, however, the distinction drawn was overbroad, and the characteristics noted for smaller rural carriers do not necessarily apply to mid-sized carriers. The Joint Board now has the opportunity to make a recommendation that can more precisely focus on the more granular differences between urban and rural areas of the country, and to ensure that its high-cost policies target support in the most efficient and effective manner to smaller carriers that today serve small numbers of customers in sparsely populated rural areas.

The three characteristics relied on by the Commission and the Joint Board as warranting a separate mechanism for rural carriers – *e.g.*, that rural carriers serve fewer subscribers, less dense service areas, and generally lack of economies of scale – are empirically not present in mid-sized carriers. First, the Joint Board found that more than 40 carriers serving more than 100,000 lines qualify as rural under the current definition, including Citizens Communications Company (2.29 million total lines), ALLTEL Corporation (2.91 million total lines), Sprint Corporation (7.85 million total lines), and CenturyTel, Inc. (2.38 million total lines). Industry Analysis and

Technology Division, Wireline Competition Bureau, Federal Communications Commission, Trends in Telephone Service, Table 7.3 (rel. May 6, 2004) ("*Trends in Telephone Service*"). Sprint Florida alone serves more than 2 million access lines. *Joint Board Notice,* ¶ 8. In fact, these carriers are larger than a number of carriers that are already considered non-rural carriers and participate in the high-cost support mechanism.[16]

The Rural Task Force expressed concern that the high-cost support mechanism for non-rural carriers might not provide the appropriate level of support "for many Rural Carriers who serve only a few wire centers, or in some cases, a single wire center."[17] That concern, however, is not present for mid-sized carriers. The Rural Task Force's research corroborates the stark size differences between small and mid-sized rural carrier study areas: mid-sized carriers (more than 100,000 lines in a study area) account for a very small percentage of the total number of rural study areas (1.5 percent), yet those few study areas account for more than 27 percent of rural lines. *Rural Difference White Paper,* at 9, 25-26. Therefore, any problems with the formula used to calculate support for non-rural carriers should not be present in the case of larger and mid-size carriers, because the areas "where the support results are too high will tend to offset those which are too low."[18]

Similarly, a review of the Rural Task Force's findings with respect to line and population density and economies of scale and scope further demonstrate that mid-sized carriers have

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[16] *Trends in Telephone Service,* Table 7-3. (Roseville/SureWest (134,361 total lines) and North State Telecommunications (135,692 total lines)).

[17] *A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies,* Rural Task Force, White Paper 4, at 7 (Sept. 2000) ("*White Paper Four*").

[18] *White Paper Four,* at 7.

operational and cost characteristics that look much more like non-rural carriers than small rural carriers.[19] For instance:

- **Mid-sized carriers benefit from greater line density.** The Rural Task Force found that: "For Rural Carriers, the number of lines per switch decreases dramatically as the line size of the study area served decreases. Rural Carrier study areas with more than 100,000 lines average nearly 3,000 lines per switch, compared to an average of only 223 lines per switch for study areas with less than 500 lines." *Rural Difference White Paper*, at 11-12.

- **Mid-sized carriers in larger study areas have capital investment per loop that is virtually identical to non-rural carriers.** The Rural Task Force explained that: "On average, total plant investment per loop is over $5,000 for Rural Carriers compared to less than $3,000 for non-Rural Carriers. Average total plant investment per line for Rural Carriers increases as the line size of the study area decreases. Average total plant investment per line ranges from $3,000 for Rural Carriers with the largest study areas to over $10,000 for Rural Carriers with the smallest study areas." *Id.*, at 12.

- **Mid-sized carriers have a higher percentage of high revenue business customers.** The Rural Task Force concluded that "[g]enerally, companies serving larger study areas have a smaller percentage of residential customers." *Id.*, at 37. Overall, non-rural carriers have 73 percent residential lines compared to rural carriers that have 81.3 percent residential customers. Filtering out small rural carriers reveals, however, that mid-sized rural carriers (more than 100,000 lines) have a comparable percentage of residential customers to non-rural carriers (75.5 percent compared to 73 percent). *Id.*

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19 The Commission has previously concluded that: "For many rural carriers, universal service support provides a large share of the carriers' revenues, and thus, any sudden change in the support mechanisms may disproportionately affect rural carriers' operations." *First Report and Order,* ¶ 294. Again, this is not necessarily true for mid-sized carriers, and does not take into account the fact that they would be eligible for high cost support to the extent they qualify as having less than 100,000 lines in a state. Citizens has reported to Wall Street that universal service funding represents only seven to eight percent of total revenues. E*vent Brief of Q4 2002 Citizens Communications Co. Earnings Conference Call – Final,* Fin. Disclosure Wire, 2003 WL 6692615 (Mar. 4, 2003). In contrast, the National Telecommunications Cooperative Association (NTCA) maintains that "14% of rural carriers already receiv[e] at least half their revenues from universal service." *NTCA: ICF Plan not enough for rural carriers,* Primedia Insight, 2004 WL 88607200 (Sept. 10, 2004).

It is apparent upon examination that larger and mid-sized carriers currently classified as rural do not share the same "rural" characteristics that motivated the Commission to treat them separately than their non-rural counterparts for purposes of receiving high-cost support.[20]

The Joint Board should use a size cut-off, as it is the only practical and predictable way to distinguish between small rural carriers and mid-sized carriers.[21] The Joint Board suggests there are three distinct categories of rural carriers: fewer than 50,000 lines, 50,000 to 100,000 lines, and above 100,000 lines. *Joint Board Notice*, ¶ 14. The Commission itself suggested that the middle class (more than 50,000 lines) may be an appropriate cutoff.[22] Although carriers within that category exhibit similar characteristics to the largest set of mid-sized carriers, Verizon recommends, out of an abundance of caution, initially shifting only the largest set of carriers – those with more than 100,000 lines in a state – to the same high-cost support mechanism as the non-rural carriers. If non-rural high-cost support results in decreased levels of support, mid-sized carriers should be permitted to recover the funding difference directly from their end-user customers, through a federal line-item charge or other comparable means. In order to ensure that state rate requirements would not preclude such recovery, the Commission should clarify that

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20 Insular carriers, on the other hand, can have significantly different cost characteristics because of the unique and difficult challenges they can face in serving island territories. Therefore, a unique universal service mechanism needs to be adopted for insular carriers based on their unique characteristics. *See* Ex Parte of Puerto Rico Telephone Company, Inc., CC Docket Nos. 00-256, 96-45, 98-77, and 98-166 (dated Feb. 28, 2003, filed March 3, 2003).

21 Using a test such as average loop length or customer density figures would entail difficult proof problems that could embroil the Commission or state commissions into fact-finding or enforcement proceedings that would tax existing resources, and could greatly delay implementation of the new rules.

22 *Referral Order*, ¶ 11 (explaining that "the Joint Board should consider whether it would be appropriate to use forward-looking economic cost estimates to determine high-cost support for rural telephone companies with more than 50,000 lines in a state, while smaller rural telephone companies would continue to use embedded costs on an interim or permanent basis.").

this would be a federal charge, and the affected carrier could charge the customer an amount up to the amount of per-line high-cost support it would have received under the rural high-cost mechanism.

A review of the carriers affected by this transition, representing some of the nation's largest carriers, underscore the significant and often national scope of these carriers: CenturyTel, Citizens, Sprint, Valor, ALLTEL, ACS, and Verizon. Notably, under this proposal Verizon's support levels would be affected in a number of states, as the company's funding from the universal service high-cost fund would be diminished by approximately $7 million annually.

II. Small Rural Carriers Should Remain Under A Modified Rural High-Cost Mechanism

The Commission also must take further steps to control growth of the rural high-cost fund. Overall, the size of the rural high-cost loop fund ($1.130.4 billion annually) dwarfs the $265.4 million non-rural fund. *Monitoring Report,* Table 3.2 (2004 figures). Moreover, since 2000, the size of the rural fund has ballooned $257.9 million, so that just the amount of the increase approximates the *total size* of the non-rural fund. *Id.* The serious potential for future, unchecked growth in the high-cost fund is directly linked to support provided to rural telephone companies and competitive ETCs. This risk of runaway growth must be addressed.

Currently, funding is subject to an "indexed cap, which limits total support to the previous year's total, increased by the rate of annual loop growth for all carriers." *Rural Task Force Order,* ¶ 14. However, as the number of competitive ETCs grows, so does the potential for a continued "upward spiral" in growth of the universal service fund.[23] This highlights the inadequacies of the current safeguards standing alone.

Verizon explained in the *Portability Proceeding* that excessive growth in the rural fund can be curbed through the adoption of two discrete reforms. First, the Commission should clarify that, absent extraordinary circumstances, it is not in the public interest to grant ETC status to more than one carrier in a rural area. *Verizon Portability Comments*, at 9. The Commission should reject the oft-repeated premise that high-cost subsidies should be used to create "competitive benefits" in these rural, high-cost areas. As more than one commissioner has recognized, it makes little sense to subsidize "multiple competitors to serve areas in which the costs are prohibitively expensive for even one carrier."[24] Second, the Commission should adopt a freeze on all per-line support for study areas remaining under the rural high-cost fund.[25] These

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23 The Joint Board in the *Portability Proceeding* recognized this "upward spiral" impact on funding levels. *Federal-State Joint Board on Universal Service*, Recommended Decision, 19 FCC Rcd 4257, ¶¶ 77-80 (2004) ("*Recommended Decision").* Specifically, if an ILEC "loses" lines to a CETC, the incumbent's per-line support is recalculated to allow recovery of the same fixed costs from fewer lines, resulting in an increase in average per-line funding. In turn, CETCs receive increased funding based upon the incumbent's per-line increase. Furthermore, CETC funding is not included within the current cap structure. The end result is a continual escalating increase in total high-cost funding as per-line funding levels increase even as the number of lines support remains constant. These increases remain unchecked under the current methodology.

24 *MAG Plan Order*, Separate Statement of Commissioner Kevin J. Martin, 16 FCC Rcd 19746; *see also* Jonathan S. Adelstein, Commissioner, FCC, Remarks before the National Association of Regulatory Utility Commissioners (Feb. 25, 2003), *available at* http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-231648A1.pdf; *see also*, *Virginia Cellular Order*, Separate Statement of Chairman Michael K. Powell ("Despite the importance of making rural, facilities-based competition a reality, we must ensure that increasing demands on the fund should not be allowed to threaten its viability").

25 *See generally*, *Verizon Portability Comments.* Under this proposal, per-line support initially would be based on the ILEC's cost and line count data for the twelve-month period before the new rules take effect, and would be adjusted annually by an indexed factor linked to changes in the number of supported loops, rather than network cost changes. This proposal is derived from – and is a logical extension of – a Rural Task Force recommendation to control

reforms would not jeopardize the continued delivery of predictable or sufficient high-cost support to rural consumers.

Respectfully submitted,

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fund growth. *See Recommended Decision*, ¶ 77; *Rural Task Force Order*, ¶ 120. This per-line support freeze would act in a manner similar to the current high-cost funding cap, and would ensure that rural carriers continue to receive sufficient universal service support as required by the Act. *Alenco Comm., Inc. v. FCC*, 202 F.3d 601, 620 (5th Cir. 2001) (finding that "[s]o long as there is sufficient and competitively-neutral funding to enable all customers to receive basic telecommunications services, the FCC has satisfied the Act and is not further required to ensure sufficient funding of every local telephone provider as well."). By indexing growth in the fund on the number of lines, rather than network costs, it provides further incentive for carriers to operate and invest in a more efficient manner.

ATTACHMENT A

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.